

## MONTHLY MARKET COMMENTARY (Sept 2023): NASI PE at a record low; Kenyan equities post the worst performance

### KEY HIGHLIGHTS

#### EQUITIES

- In September, equity turnover rose by 19.2% m/m to stand at KES 5.2bn (USD 35.2m), largely driven by increased trading by local institutions.
- As the advance/decline ratio further deteriorated to -0.4x from -0.1x, the NASI sustained a 3-month losing streak, shedding 4.0% m/m to end at 95.22. For the second month straight, the NSE 20 came off 2.0% m/m to finish at 1,508.75.
- Large-cap stocks largely detracted NASI returns mainly on account of foreign investors' sell-off. Safaricom, Equity bank, KCB bank and EABL declined 5.2% m/m, 8.5% m/m, 11.7% m/m and 3.1% m/m, respectively. Notably, KCB bank extended its losses to the seventh successive month, with significant drops in the last two months at 17.2% m/m and 11.7% m/m, respectively.
- With continued weak investors' sentiments, the NASI trailing PE ratio fell to a record low of 7.2x, down from 7.4x, representing 3.5% month-on-month decrease. Compared to its 18-year average of 13.5x, the trailing PE stands at 46.9% discount – remained at a discount for the last nine months.
- After recording net foreign inflows in the month of August 2023, foreign investors turned net sellers at USD 8.1m (KES 1.2bn). Safaricom (USD 5.6m, KES 834.6m), Equity bank (USD 1.0m, KES 150.5m) and Co-op bank (USD 0.5m, KES 76.7m) registered the highest net foreign outflows. On the other hand, Stanbic bank posted net foreign inflows.
- Against the backdrop of share price erosions, equities' allocation by pension funds dropped to a record low of 10.3% in September 2023, down from 10.7% marked in the month of August 2023. However, local institutions turned net buyers.
- After six consecutive quarters of decline, foreign portfolio holdings as a % of CBK forex grew to 36.4% in 3Q23 – the highest levels since 1Q21 – up from 20.1% witnessed in 2Q23 as CBK FX reserves came down 7.2% q/q, posing further risks to KES depreciation in the event of foreign sell-offs.
- Among the key SSA equities markets that we cover, on a YTD basis to September 2023, equities in Ghana (+13.5%), Morocco (+11.9%) and Egypt (+10.7%) stood out in positive territory. However, Kenyan (-37.8%) equities emerged as the worst performer. YTD to August 2023, foreign investors remained overall net sellers across most SSA markets. Kenya, Egypt, S.Africa and Nigeria experienced outflows of USD 15.3m, USD 243.6m, USD 3,999.7m and USD 4.2m, respectively.

#### FIXED INCOME

- The bond market witnessed reduced activity in September 2023 due to a rising yield curve and general money market illiquidity. The on-the-run 2yr (FXD1/2023/2Yr) traded through a broad range of 17.200%-17.350%, while the longer on-the-run 5yr, FXD1/2023/5Yr traded between 17.500%-17.750%.
- The infrastructure bonds witnessed poor demand, as market participants anticipated a potential November issuance. The latest on-the-run 7yr, IFB1/2023/7Yr, traded largely between 15.600%-15.850%, while the existing 15yr, IFB1/2018/15Yr traded between 15.800%-16.000%. The shorter 11yr, IFB1/2020/11Yr, traded 15.000%-15.500%, while the 9yr, IFB1/2020/9Yr realizing levels 15.200%-15.500% as demand dwindled.
- During the month, Treasury opted to reopen a two (2) year FXD1/2023/2Yr and a five (5) FXD1/2023/5Yr targeting KES 35.0bn. The coupon rates for the 2yr and 5yr were 16.8723% and 16.844% respectively.
- The 2yr and 5yr bond yielded 17.736% and 17.992% respectively with an estimated cut-off yield of 17.735% and 18.290% respectively. Treasury managed to raise a total of KES 6.3bn without any offset in maturities for October 2023.
- In the third (3) month of FY2023/24, we estimate that Treasury had borrowed ~KES 83.6bn versus ~KES 106.5bn (down 21.5%) a year earlier.

## MARKET OUTLOOK

### EQUITIES:

- We expect investors' sentiments to remain suppressed as macro risks persist. Again, we foresee weakness in corporate earnings on account of subdued consumer demand and contraction in margins driven by higher input costs. We therefore advocate for defensive stocks – strong balance sheets (unlevered), strong brands & pricing power, sector dominance and low operational leverage – BAT Kenya and Safaricom. Also, most banks are trading at undemanding multiples – average sector P/B of 0.7x is 14% above the sector's 10-year historical average low, but 68% below the sector's 10-year average high. We have BUYS on Equity, KCB, Co-op, I&M and DTB.

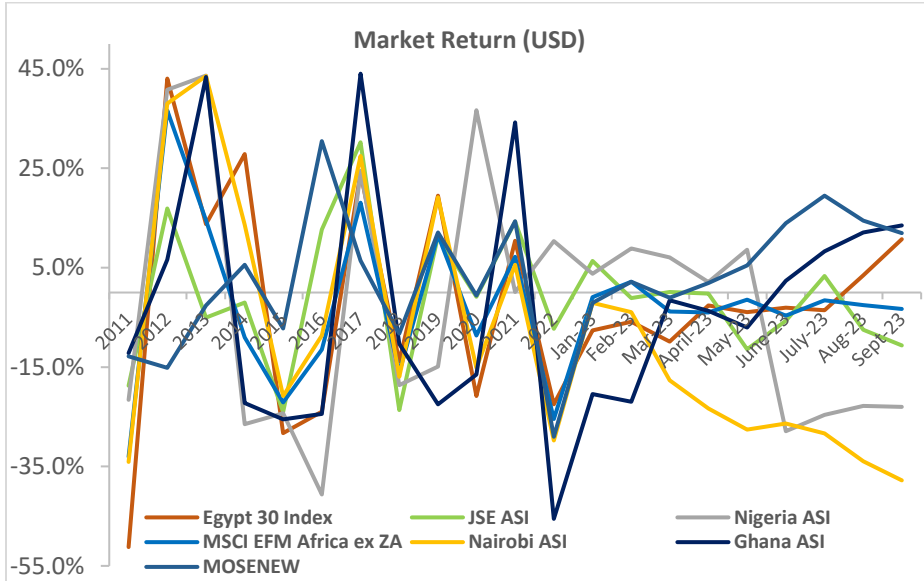
### FIXED INCOME:

- Money market liquidity toward mid-October 2023 was tight due to subdued government spending with CBK injecting close to KES 100bn. The Central Bank of Kenya (CBK) is offering KES 50.0bn by issuing a new IFB1/2023/6.5. The coupon rate will be market determined and we expect the 6.5-year bond to average 16.750%, with cut off at 16.990% We expect bids of about KES 85bn and accepted amount of KES 50.0bn.

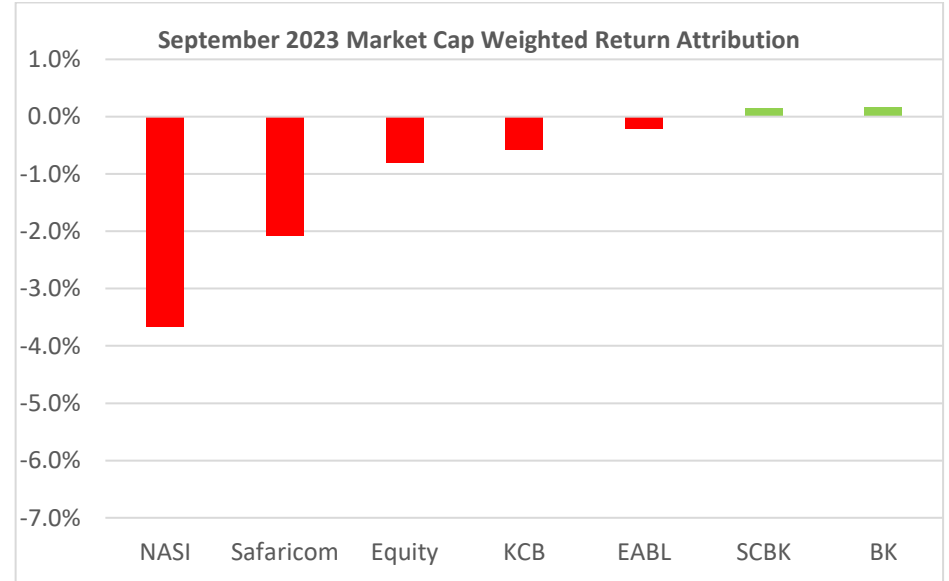
MONTHLY MARKET STATISTICS

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	April-23	May-23	June-23	July-23	Aug-23	Sept-23
<b>Equities</b>													
Market Capitalisation (USD bn)	16.6	16.5	16.2	13.6	13.2	15.5	13.3	12.5	11.7	11.9	11.5	10.6	10.0
NASI return (KES)	-6.6%	0.3%	-1.8%	0.8%	-1.2%	0.1%	-10.5%	-4.5%	-3.7%	3.2%	-1.4%	-5.9%	-4.0%
NSE 20 return (KES)	-1.9%	-2.3%	-2.4%	2.4%	-1.1%	-0.6%	-1.5%	-2.7%	-2.0%	1.8%	0.1%	-2.4%	-2.0%
Gainers/Decliners ratio (x)	(0.6)	(0.6)	(0.5)	0.9	(0.4)	0.5	(0.1)	(0.1)	-	0.8	0.0	(0.1)	(0.4)
MSCI EFM ex. ZA (KES)	-5.7%	-2.2%	3.1%	2.9%	1.1%	3.9%	-1.8%	0.8%	2.1%	3.2%	3.1%	2.6%	1.1%
Equity Turnover (KES bn)	9.4	6.0	6.5	4.9	7.8	4.6	32.4	4.2	6.1	4.1	7.6	4.4	5.2
Equity Turnover (USD m)	77.8	49.6	53.5	40.0	62.1	36.3	244.8	31.6	44.0	29.1	53.6	30.1	35.2
Avg. daily value traded (USD m)	3.71	2.61	2.43	2.11	2.96	1.73	10.64	1.86	2.0	1.5	2.6	1.3	1.7
Foreign institutions participation (%)	34.1	44.1	59.4	58.8	50.7	39.5	29.5	46.2	45.6	38.9	47.2	46.4	44.0
Local institutions participation (%)	47.1	33.9	28.9	29.3	36.7	43.4	64.3	30.8	32.8	35.1	36.9	31.8	39.7
Local individuals' participation (%)	16.9	21.6	10.7	11.2	11.6	14.6	5.6	21.9	20.1	24.4	14.9	20.7	15.5
Local institutions net flow (USD m)	12.6	13.5	5.8	12.4	19.1	1.3	85.6	(0.2)	2.5	(1.8)	18.8	(8.0)	5.3
Foreign institutions net flow (USD m)	(19.7)	(19.2)	(6.9)	(13.6)	(22.7)	(3.2)	(78.6)	(2.3)	(9.7)	1.1	(21.2)	4.7	(8.0)
<b>Fixed Income</b>													
Bond Turnover (KES bn)	66.7	56.7	53.6	48.0	44.7	47.1	70.7	37.3	64.3	45.7	56.8	50.6	88.8
Bond Turnover (USD m)	553	467	441	389	355	372	534	279	465	326	399	348	600
T-Bill performance rate	106%	92%	168%	93%	105%	167%	114%	110%	116%	99%	104%	132%	109%
T-Bill allotment rate	75%	84%	80%	79%	98%	85%	88%	96%	98%	83%	94%	96%	96%
T-Bill offer fill rate	80%	77%	135%	73%	103%	142%	100%	105%	114%	82%	98%	127%	104%
T-Bond performance rate	92%	56%	171%	69%	99%	53%	104%	27%	117%	319%	159%	125%	97%
T-Bond allotment rate	85%	85%	85%	85%	83%	91%	88%	64%	99%	97%	86%	56%	64%
T-Bond offer fill rate	78%	48%	146%	59%	82%	48%	91%	71%	116%	309%	137%	70%	62%
5-year m/m yield change (bps)	10	58	53	70	70	68	60	30	88	100	320	103	-27
2 year-91D yield spread (bps)	262	290	276	273	276	273	293	308	408	413	538	327	271
5 year-364D yield spread (bps)	302	347	313	322	302	286	289	306	359	371	591	356	208
5 year-2-year yield spread (bps)	135	140	135	143	123	115	98	100	53	60	155	57	-20
5 yr Bond-5 yr IFB yield spread (bps)	93	120	105	103	88	50	-23	-30	-8	-15	155	248	200
10 year-2-year yield spread (bps)	228	173	175	168	148	180	155	145	105	100	-25	-155	-175
Average monthly KES/USD	120.73	121.33	121.44	123.37	125.91	126.85	132.33	133.66	138.49	140.52	142.37	145.41	148.10

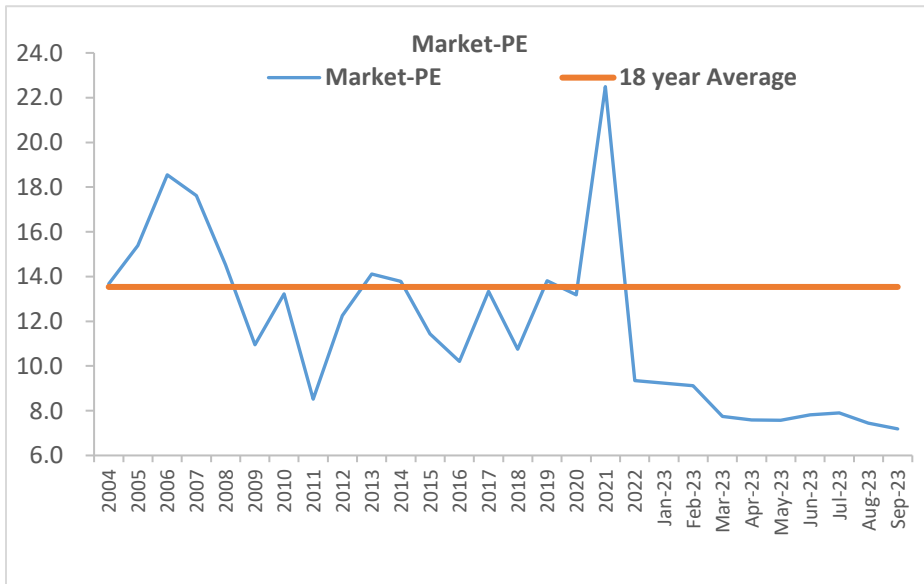
Ytd, Ghana, Egypt and Morocco equities outperform



Large-cap stocks detract NASI return

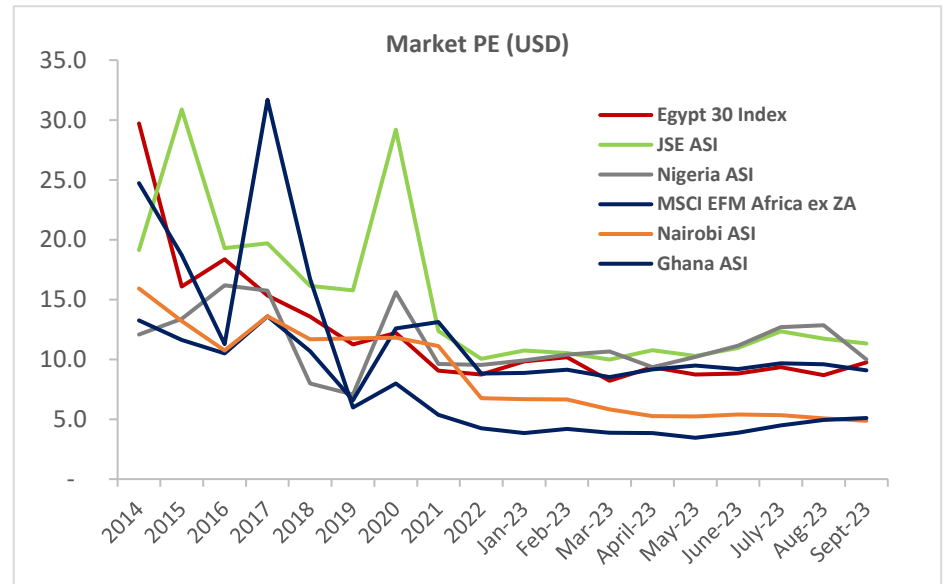


NASI PE at historical lows, at 46.9% discount to historical average



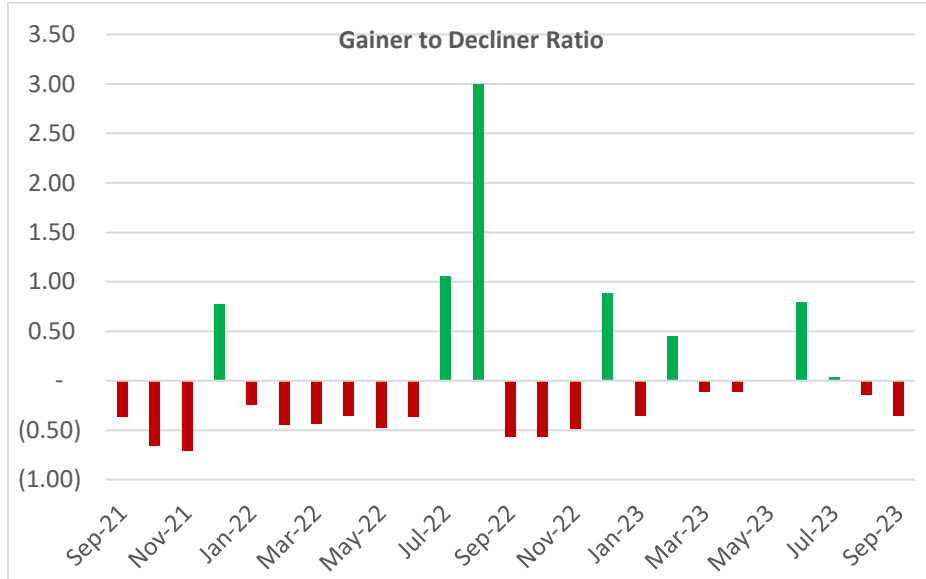
(As reported by the NSE)

Trailing PE at discounts to their 9-year averages – avg. discount of 47.6%

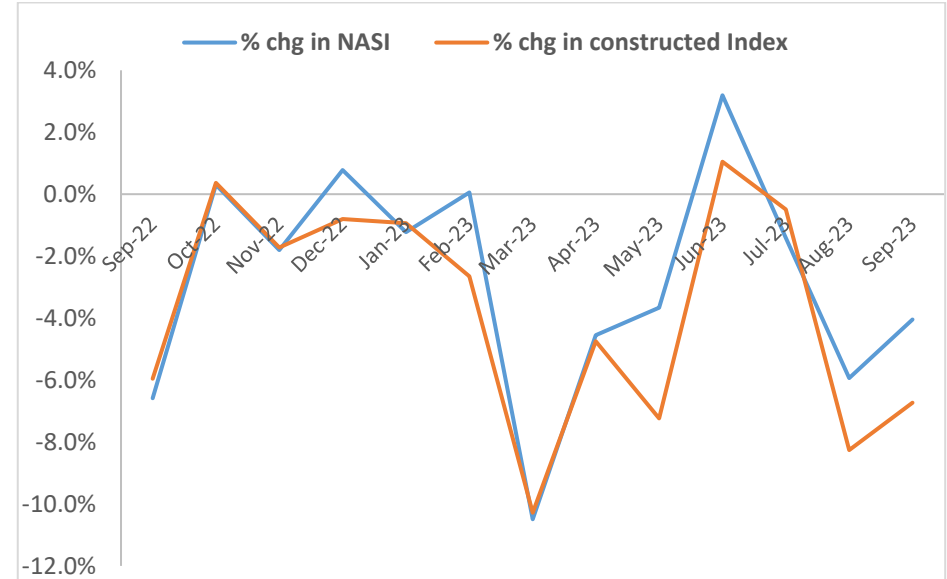


(As reported by Bloomberg)

Downward pressure persists for the second successive month

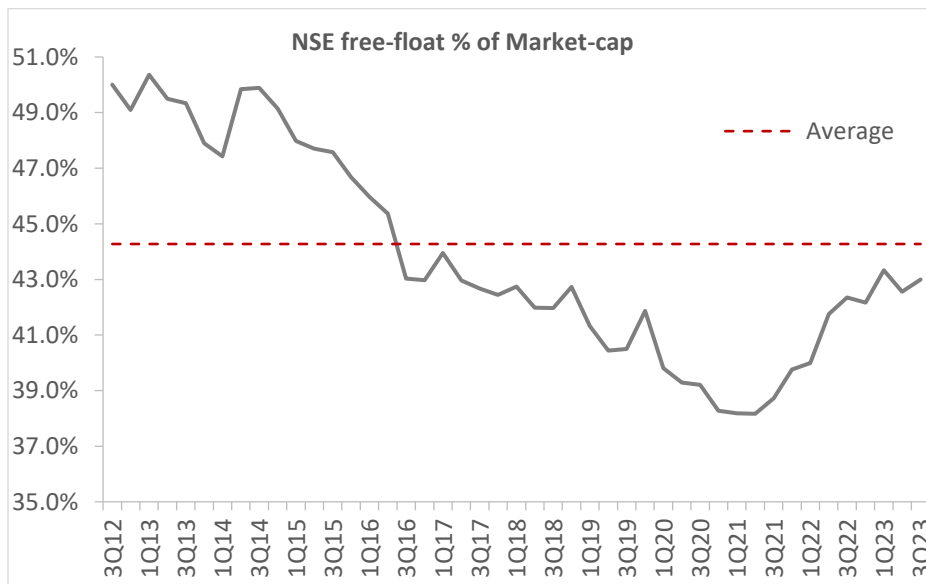


Large-cap names largely weighs on NASI return

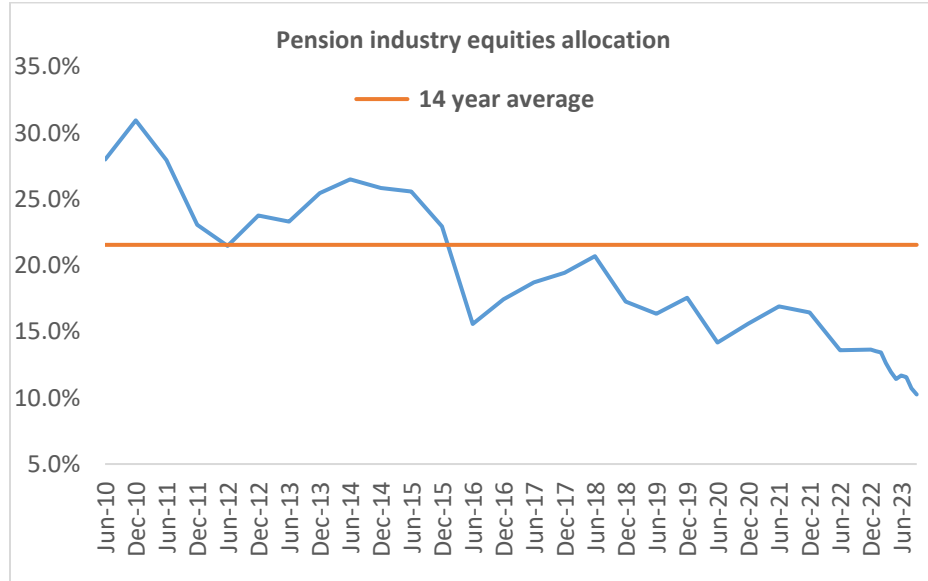


\*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

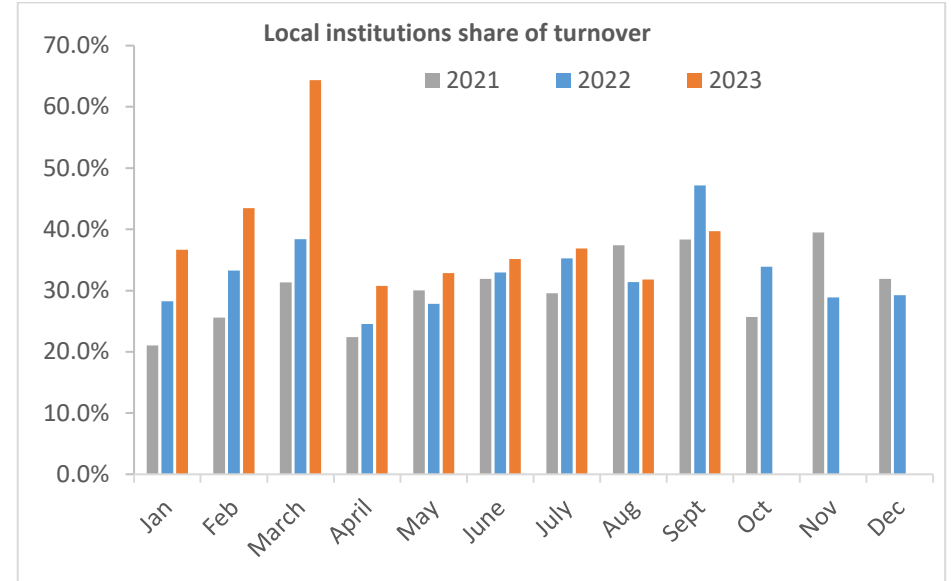
NSE free float as a % of market cap rise for the second quarter straight



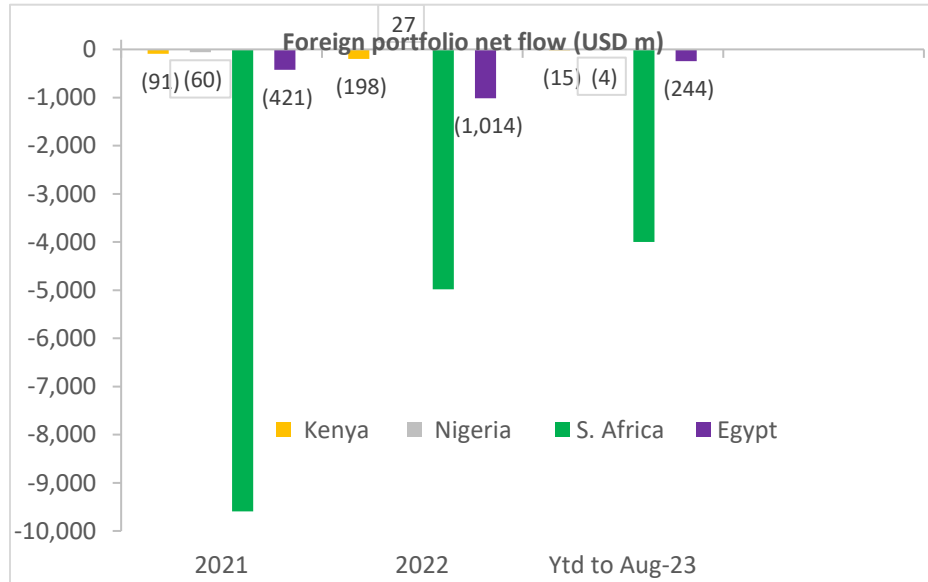
Equities allocation at record lows, driven by share price erosion



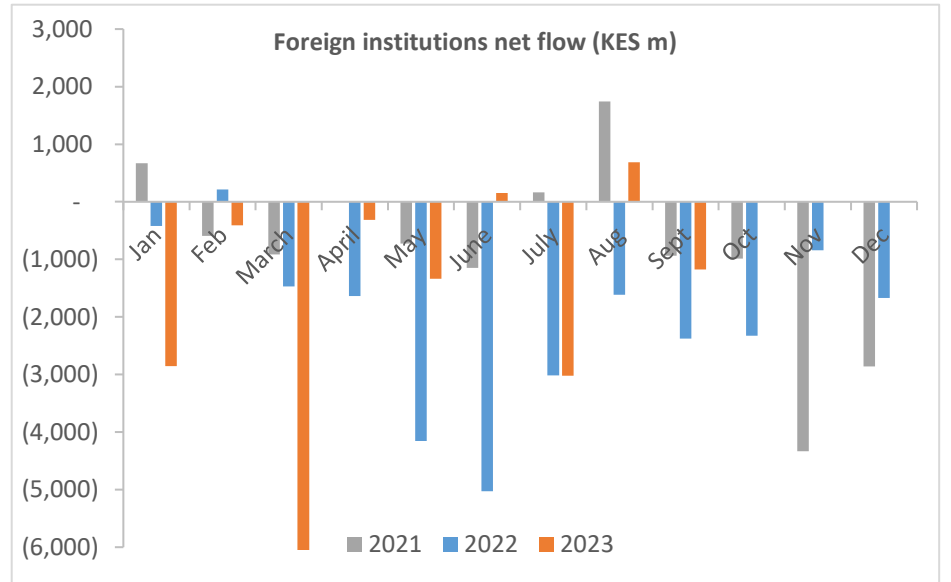
Local institutions' participation levels at a 6-month high



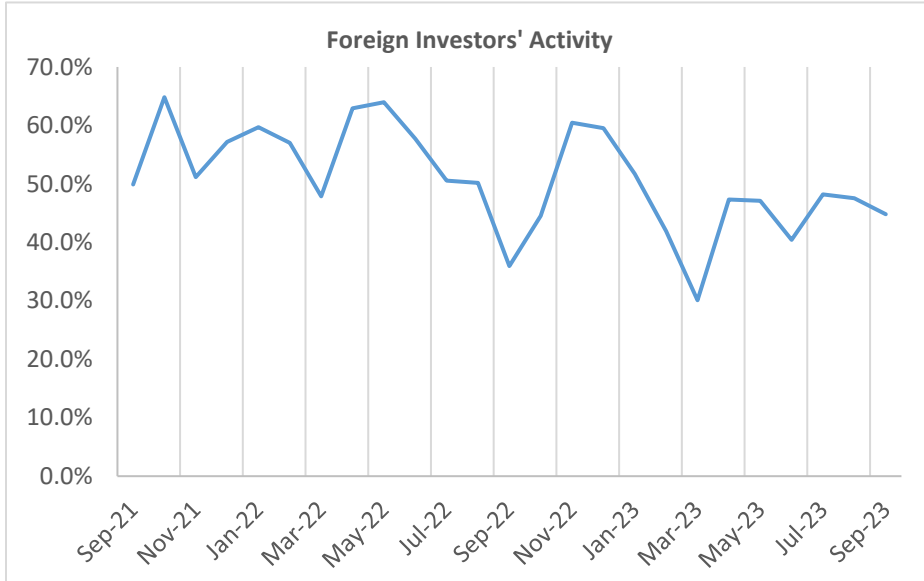
YTD to August 2023, foreign investors remain net sellers across markets



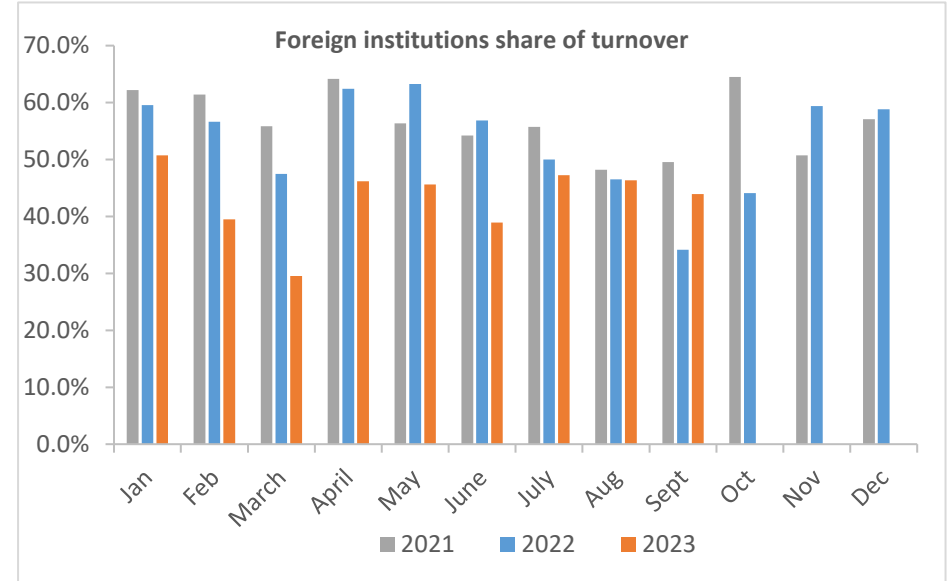
Foreign institutions turn net sellers



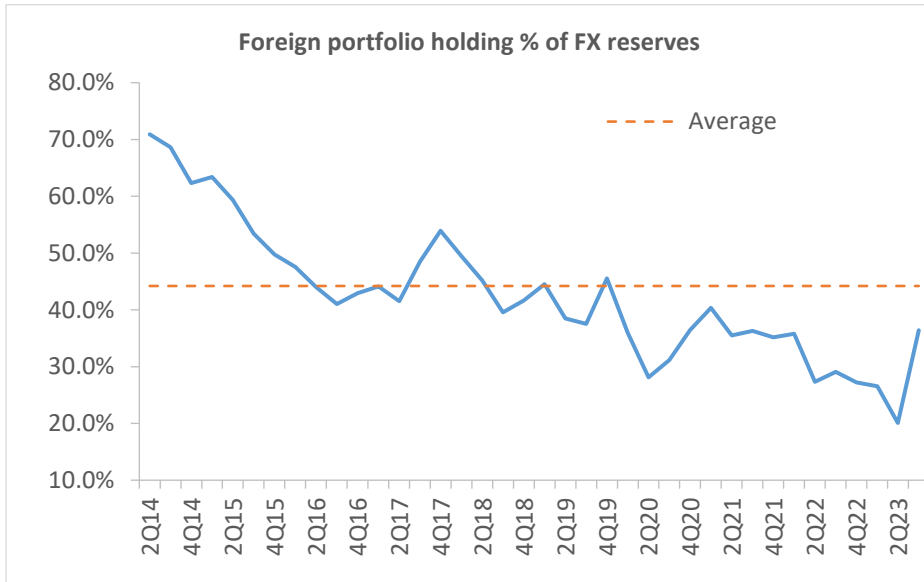
Foreign investors' participation levels at a 3-month low



Foreign institutions' activity drop to a 3-month low



Foreign portfolio as a % of FX reserves at highest levels since 1Q21



**FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER**

<b>Foreign free float/total free float</b>	<b>4Q20</b>	<b>1Q21</b>	<b>2Q21</b>	<b>3Q21</b>	<b>4Q21</b>	<b>1Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23</b>
Safaricom	45.4%	45.9%	45.7%	46.3%	45.2%	43.8%	40.8%	40.4%	39.1%	40.1%	36.6%	35.7%	33.1%
Equity bank	36.1%	36.1%	36.5%	36.7%	36.8%	37.4%	36.5%	36.2%	36.1%	36.7%	35.5%	35.7%	36.1%
EABL	38.2%	37.1%	36.7%	33.8%	33.2%	32.0%	30.5%	30.4%	30.4%	16.1%	42.3%	42.8%	42.8%
KCB bank	16.1%	14.5%	13.9%	14.1%	13.2%	13.4%	12.9%	12.0%	11.5%	11.4%	11.4%	11.3%	11.2%
BK Group	99.6%	99.5%	98.9%	98.8%	83.8%	98.8%	98.9%	98.9%	98.9%	98.9%	87.4%	98.9%	98.9%
BAT Kenya	59.8%	58.5%	57.7%	56.8%	56.5%	56.5%	56.3%	55.7%	55.6%	55.7%	48.5%	46.6%	46.2%
KenGen	50.3%	49.8%	49.1%	49.3%	51.5%	49.7%	49.5%	49.3%	48.5%	50.7%	48.0%	47.9%	47.5%
I&M bank	32.7%	32.7%	16.4%	16.4%	18.2%	16.4%	16.3%	16.3%	16.6%	33.3%	16.6%	16.4%	16.5%
Jubilee Insurance	45.2%	45.4%	45.5%	45.7%	45.4%	45.4%	45.4%	45.4%	45.5%	45.3%	45.4%	45.6%	46.0%
Stanbic bank	40.6%	40.7%	40.7%	40.8%	41.9%	41.6%	42.1%	42.1%	42.4%	42.7%	43.4%	44.3%	44.4%
DTB bank	35.5%	35.3%	35.2%	35.0%	35.7%	35.3%	35.7%	35.7%	35.6%	36.4%	35.3%	35.1%	35.1%
Centum Investment	12.5%	11.9%	11.0%	10.9%	10.9%	9.6%	9.0%	8.6%	8.6%	9.0%	8.5%	8.5%	7.9%
StanChart bank	10.8%	9.5%	7.1%	6.0%	5.4%	5.5%	5.5%	5.5%	5.5%	5.4%	5.6%	5.7%	5.8%
Britam Insurance	14.1%	14.0%	13.7%	13.7%	17.0%	13.7%	13.6%	13.5%	13.4%	16.7%	13.4%	13.4%	13.4%
WPP ScanGroup	78.1%	78.1%	76.5%	65.1%	72.8%	66.9%	66.9%	66.9%	66.9%	74.2%	66.9%	66.9%	66.9%

*Companies with foreign free float holding of over USD 10*



MONTHLY NET FOREIGN FLOWS PER COUNTER

	Sept-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	April-23	May-23	June-23	July-23	Aug-23	Sept-23
Safaricom	(2,101)	(1,651)	(260)	(684)	(647)	(129)	(1,982)	(531)	(1,046)	35	(3,348)	(21)	(835)
Equity Bank	65	(489)	(112)	(473)	(216)	(92)	360	436	(77)	(77)	311	525	(151)
EABL	11	(71)	(150)	(176)	54	2	(9,226)	(98)	119	170	(3)	27	(1)
KCB bank	(360)	(74)	(60)	(160)	(23)	200	33	(2)	12	(109)	(93)	19	(16)
BK Group	(0)	0	(2)	(0)	(3)	-	-	(1)	-	25	(0)	(0)	(0)
BAT	(1)	(14)	(374)	(140)	(86)	(415)	(240)	(83)	(150)	(102)	(52)	9	(13)
Britam	(0)	(0)	(2)	(2)	1	-	-	-	-	0	-	0	0
I&M bank	30	1	0	(1)	0	7	(5)	(8)	(10)	(6)	-	3	1
Jubilee	9	(0)	(2)	(3)	(2)	(2)	3	16	(1)	(2)	7	17	9
Stanbic bank	33	(1)	-	(0)	32	99	0	0	-	129	-	0	22
DTB bank	9	(0)	(4)	(5)	(3)	(16)	(1)	(1)	(5)	(5)	0	(1)	0
KenGen	(21)	(16)	(8)	(1)	(0)	(1)	0	(3)	(0)	(1)	(4)	(9)	(5)
WPP ScanGroup	-	-	(0)	(0)	0	0	0	0	-	(0)	0	-	(0)
Centum	(0)	(0)	0	0	0	(3)	(2)	(1)	(0)	(0)	-	0	(28)
StanChart bank	(1)	(1)	(1)	(2)	0	12	(0)	(1)	8	11	24	2	(1)
BBK bank	0	0	110	(0)	39	43	123	0	25	16	-	128	(44)
Co-op Bank	16	(1)	(5)	(1)	0	(0)	5	(1)	(21)	3	1	(13)	(77)
NSE	(3)	(1)	(1)	(1)	(4)	(1)	(0)	(3)	(1)	5	(0)	0	1
<b>Market</b>	<b>(2,337)</b>	<b>(2,319)</b>	<b>(887)</b>	<b>(1,664)</b>	<b>(859)</b>	<b>(382)</b>	<b>(10,692)</b>	<b>(283)</b>	<b>(1,312)</b>	<b>154</b>	<b>(3,019)</b>	<b>672</b>	<b>(-1,193)</b>

Companies with foreign free float holding of over USD 10mn, Amounts in KES M

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